

**RECEIVED**  
JUN 28 2011  
CONTINUING CARE  
CONTRACTS BRANCH

Ms. Alison Nakatomi  
Continuing Care Contracts Branch  
Department of Social Services  
744 P Street, MS 10-90  
Sacramento, CA 95814

**Re: Channing House Annual Reserve Report and Certification**

Dear Ms. Nakatomi:

Attached for your review are our Annual Reserve Report Forms 5-1 through 5-5, Disclosure Statements, Fidelity Bond, Audited Financial Statements for FY 2011 as well as Key Indicators and Form 7-1.

Included in the Key Indicators are budget figures incorporating the current construction of 1) a replacement health care facility and 2) additional apartments. Our construction plans include reducing the current size of our health center from 69 beds down to 53 beds, while adding 14 new apartments. Construction began in FY 2011 with completion of the new health center and additional apartments in FY 2013.

I certify that 1) this report and all attachments are correct to the best of my knowledge, 2) all contract forms in current use have been approved by the Department of Social Services, and 3) that Channing House continues to maintain the liquid reserves required by state statute.

This report will be filed in the Channing House library for resident review.

If you have any questions, please contact either Julie Jones, our Director of Finance, or myself.

Sincerely,

  
Carl Braginsky  
Executive Director

Enclosures

**ANNUAL REPORT  
CHECKLIST**

for  
**FISCAL YEAR ENDED:**

02/28/2011

**RECEIVED**  
JUN 28 2011  
CONTINUING CARE  
CONTRACTS BRANCH

**PROVIDER:** CHANNING HOUSE

**FACILITY(IES):** CHANNING HOUSE

850 WEBSTER STREET, PALO ALTO CA 94301

**CONTACT PERSON:** CARL BRAGINSKY OR JULIE JONES

**TELEPHONE NO.:** ( 650 ) 327-0950

✓    ✓    ✓    ✓    ✓    ✓    ✓    ✓    ✓    ✓    ✓    ✓    ✓

Your complete annual report must consist of **3 copies** of all of the following:

- ✓ This cover sheet.
- ✓ Annual Provider Fee in the amount of: \$ 9,375.93
  - ✓ If applicable, late fee in the amount of: \$ - 0 -
- ✓ Certification by the provider's chief *executive* officer that:
  - ✓ The reports are correct to the best of his/her knowledge.
  - ✓ Each continuing care contract form in use or offered to new residents has been approved by the Department.
  - ✓ The provider is maintaining the required *liquid reserve* and refund reserve, if applicable.
- ✓ Evidence of the provider's fidelity bond.
- ✓ The provider's audited financial statements, with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's audited reserve reports (prepared on Department forms), with an accompanying certified public accountant's opinion thereon.
- ✓ The provider's "Continuing Care Retirement Community Disclosure Statement" for **each** community. (4 copies total)

The Key Indicators Report is required to be submitted within 30 days of the due date of the submission of the annual report. ( 4 copies total)

**FORM 1-1**  
**RESIDENT POPULATION**

<u>Line</u>	<u>Continuing Care Residents</u>	<u>TOTAL</u>
[1]	Number at beginning of fiscal year	<u>238</u>
[2]	Number at end of fiscal year	<u>242</u>
[3]	Total Lines 1 and 2	<u>480</u>
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	<div style="border: 1px solid black; padding: 2px; display: inline-block;">240</div>
<b>All Residents</b>		
[6]	Number at beginning of fiscal year	<u>238</u>
[7]	Number at end of fiscal year	<u>242</u>
[8]	Total Lines 6 and 7	<u>480</u>
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of <i>all</i> residents	<div style="border: 1px solid black; padding: 2px; display: inline-block;">240</div>
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of <i>all</i> residents (Line 10) and enter the result (round to two decimal places).	<div style="border: 1px solid black; padding: 2px; display: inline-block;">1.00</div>

**FORM 1-2**  
**ANNUAL PROVIDER FEE**

<u>Line</u>		<u>TOTAL</u>
[1]	Total Operating Expenses (including depreciation and debt service – interest only)	<u>\$11,820,144</u>
[a]	Depreciation	<u>1,984,982</u>
[b]	Debt Service (Interest Only)	<u>459,233</u>
[2]	Subtotal (add Line 1a and 1b)	<u>2,444,215</u>
[3]	Subtract Line 2 from Line 1 and enter result.	<u>9,375,929</u>
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)	<u>1.00</u>
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)	<u>\$9,375,929</u>
[6]	<b>Total Amount Due</b> (multiply Line 5 by .001)	x .001 <u>\$9,375.93</u>

**PROVIDER:** CHANNING HOUSE

**COMMUNITY:** \_\_\_\_\_



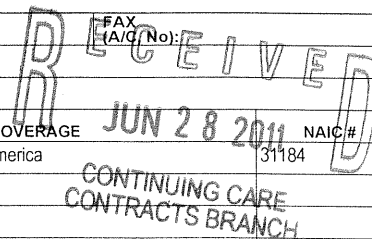
# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)  
10/27/2010

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

**IMPORTANT:** If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

<b>PRODUCER</b> MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104	<b>CONTACT</b> NAME: PHONE (A/C, No. Ext): E-MAIL ADDRESS: PRODUCER CUSTOMER ID #:
S46029-FINPR-10-11	INSURER(S) AFFORDING COVERAGE
<b>INSURED</b> Channing House Attn: Julie Jones 850 Webster Street Palo Alto, CA 94301	INSURER A : Travelers Casualty & Surety Co Of America INSURER B : INSURER C : INSURER D : INSURER E : INSURER F :

**COVERAGES****CERTIFICATE NUMBER:**

SEA-001742623-06

**REVISION NUMBER:** 1

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	<b>GENERAL LIABILITY</b>						EACH OCCURRENCE \$
	COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence) \$
	CLAIMS-MADE <input type="checkbox"/> OCCUR <input type="checkbox"/>						MED EXP (Any one person) \$
							PERSONAL & ADV INJURY \$
							GENERAL AGGREGATE \$
	GEN'L AGGREGATE LIMIT APPLIES PER:						PRODUCTS - COMP/OP AGG \$
	POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC <input type="checkbox"/>						\$
	<b>AUTOMOBILE LIABILITY</b>						COMBINED SINGLE LIMIT (Ea accident) \$
	ANY AUTO <input type="checkbox"/>						BODILY INJURY (Per person) \$
	ALL OWNED AUTOS <input type="checkbox"/>						BODILY INJURY (Per accident) \$
	SCHEDULED AUTOS <input type="checkbox"/>						PROPERTY DAMAGE (Per accident) \$
	HIRED AUTOS <input type="checkbox"/>						\$
	NON-OWNED AUTOS <input type="checkbox"/>						\$
	<b>UMBRELLA LIAB</b> <input type="checkbox"/> OCCUR <input type="checkbox"/>						EACH OCCURRENCE \$
	<b>EXCESS LIAB</b> <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/>						AGGREGATE \$
	DEDUCTIBLE <input type="checkbox"/>						\$
	RETENTION \$ <input type="checkbox"/>						\$
	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b>						WC STATUTORY LIMITS <input type="checkbox"/> OTH-ER <input type="checkbox"/>
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? <input type="checkbox"/> Y <input checked="" type="checkbox"/> N		N/A				E.L. EACH ACCIDENT \$
	(Mandatory in NH)						E.L. DISEASE - EA EMPLOYEE \$
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. DISEASE - POLICY LIMIT \$
A	D&O / EPL			105367976A	10/06/2010	10/06/2011	LIMIT OF LIABILITY \$5,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
EVIDENCE OF INSURANCE ONLY

**CERTIFICATE HOLDER****CANCELLATION**

Channing House 850 Webster Street Palo Alto, CA 94301	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.
	AUTHORIZED REPRESENTATIVE of Marsh Risk & Insurance Services Susan Goggin <i>Susan Goggin</i>

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# ADDITIONAL INFORMATION

SEA-001742623-06

DATE (MM/DD/YY)

10/27/2010

**PRODUCER**

MARSH RISK & INSURANCE SERVICES  
345 CALIFORNIA STREET, SUITE 1300  
CALIFORNIA LICENSE NO. 0437153  
SAN FRANCISCO, CA 94104

S46029--FINPR-10-11

**INSURED**

Channing House  
Attn: Julie Jones  
850 Webster Street  
Palo Alto, CA 94301

**INSURERS AFFORDING COVERAGE****NAIC #**

INSURER G:

INSURER H:

INSURER I:

INSURER J:

**TEXT****RETENTIONS:**

PER CLAIM: \$25,000  
ANTITRUST CLAIM: \$100,000

**CERTIFICATE HOLDER**

Channing House  
850 Webster Street  
Palo Alto, CA 94301

AUTHORIZED REPRESENTATIVE  
of Marsh Risk & Insurance Services  
Susan Goggin





# CERTIFICATE OF LIABILITY INSURANCE

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<b>PRODUCER</b> MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104	<b>CONTACT NAME:</b> <b>PHONE (A/C, No. Ext):</b> <b>E-MAIL ADDRESS:</b> <b>PRODUCER CUSTOMER ID #:</b>	<b>FAX (A/C, No):</b>
S46029-10-11	<b>INSURER(S) AFFORDING COVERAGE</b>	
<b>INSURED</b> Channing House Attn: Julie Jones 850 Webster Street Palo Alto, CA 94301	<b>INSURER A:</b> Federal Insurance Company	<b>NAIC #</b> 20281
	<b>INSURER B:</b>	
	<b>INSURER C:</b>	
	<b>INSURER D:</b>	
	<b>INSURER E:</b>	
	<b>INSURER F:</b>	

**COVERAGES****CERTIFICATE NUMBER:**

SEA-001742632-07

**REVISION NUMBER: 1**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
	<b>GENERAL LIABILITY</b>						<b>EACH OCCURRENCE</b> \$
	<input type="checkbox"/> COMMERCIAL GENERAL LIABILITY						<b>DAMAGE TO RENTED PREMISES (Ea occurrence)</b> \$
	<input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> OCCUR						<b>MED EXP (Any one person)</b> \$
							<b>PERSONAL &amp; ADV INJURY</b> \$
							<b>GENERAL AGGREGATE</b> \$
	<b>GEN'L AGGREGATE LIMIT APPLIES PER:</b>						<b>PRODUCTS - COMP/OP AGG</b> \$
	<input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						\$
	<b>AUTOMOBILE LIABILITY</b>						<b>COMBINED SINGLE LIMIT (Ea accident)</b> \$
	<input type="checkbox"/> ANY AUTO						<b>BODILY INJURY (Per person)</b> \$
	<input type="checkbox"/> ALL OWNED AUTOS						<b>BODILY INJURY (Per accident)</b> \$
	<input type="checkbox"/> SCHEDULED AUTOS						<b>PROPERTY DAMAGE (Per accident)</b> \$
	<input type="checkbox"/> HIRED AUTOS						\$
	<input type="checkbox"/> NON-OWNED AUTOS						\$
	<b>UMBRELLA LIAB</b>						<b>EACH OCCURRENCE</b> \$
	<input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE						<b>AGGREGATE</b> \$
	<input type="checkbox"/> DEDUCTIBLE						\$
	<input type="checkbox"/> RETENTION \$						\$
	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b>						<input type="checkbox"/> WC STATU-TORY LIMITS <input type="checkbox"/> OTH-ER
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)	<input type="checkbox"/> Y <input checked="" type="checkbox"/> N	N/A				<b>E.L. EACH ACCIDENT</b> \$
	If yes, describe under DESCRIPTION OF OPERATIONS below						<b>E.L. DISEASE - EA EMPLOYEE</b> \$
							<b>E.L. DISEASE - POLICY LIMIT</b> \$
A	<b>CRIME &amp; FIDUCIARY</b>			8209-1025	10/06/2010	10/06/2011	<b>CRIME</b> \$5,000,000
	<b>CRIME RETENTION: \$2,500</b>						<b>FIDUCIARY</b> \$1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
EVIDENCE OF INSURANCE ONLY

**CERTIFICATE HOLDER****CANCELLATION**

Channing House 850 Webster Street Palo Alto, CA 94301	<b>SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.</b>
	<b>AUTHORIZED REPRESENTATIVE</b> of Marsh Risk & Insurance Services  Susan Goggin <i>Susan Goggin</i>

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# CERTIFICATE OF LIABILITY INSURANCE

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10/27/2010

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<b>PRODUCER</b> MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104 Attn: SanFrancisco.Certs@marsh.com 212-948-0398  S46029--CAS-10-11	<b>CONTACT NAME:</b>	
	<b>PHONE (A/C, No, Ext):</b>	<b>FAX (A/C, No):</b>
<b>INSURED</b> Channing House Attn: Julie Jones 850 Webster Street Palo Alto, CA 94301	<b>E-MAIL ADDRESS:</b>	
	<b>PRODUCER CUSTOMER ID #:</b>	
	<b>INSURER(S) AFFORDING COVERAGE</b>	
	<b>NAIC #</b>	
	<b>INSURER A:</b> Columbia Casualty Company 31127	
	<b>INSURER B:</b>	
<b>INSURER C:</b> Property And Casualty Ins Co Of Hartford 34690		
<b>INSURER D:</b>		
<b>INSURER E:</b>		
<b>INSURER F:</b>		

**COVERAGES****CERTIFICATE NUMBER:**

SEA-001742626-18

**REVISION NUMBER:** 4

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<b>GENERAL LIABILITY</b> <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR <input checked="" type="checkbox"/> PROFESSIONAL LIABILITY  GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC			3011517016	06/04/2010	10/06/2011	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 3,000,000 PRODUCTS - COMP/OP AGG \$ Included \$
C	<b>AUTOMOBILE LIABILITY</b> <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS DED \$1,000 COMP/COLL			57UENPV1350	10/06/2010	10/06/2011	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$ \$
A	<b>UMBRELLA LIAB</b> <input type="checkbox"/> OCCUR <b>EXCESS LIAB</b> <input type="checkbox"/> CLAIMS-MADE  DEDUCTIBLE RETENTION \$ 10,000			3011516898	06/04/2010	10/06/2011	EACH OCCURRENCE \$ 5,000,000 AGGREGATE \$ 5,000,000 \$ \$
	<b>WORKERS COMPENSATION AND EMPLOYERS' LIABILITY</b> ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	<input type="checkbox"/> Y / <input checked="" type="checkbox"/> N	N / A				WC STATUTORY LIMITS <input type="checkbox"/> OTH-ER <input type="checkbox"/> E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
Evidence of Insurance Only

**CERTIFICATE HOLDER****CANCELLATION**Channing House  
850 Webster Street  
Palo Alto, CA 94301

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE  
of Marsh Risk & Insurance Services

Susan Goggin

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# EVIDENCE OF PROPERTY INSURANCE

DATE (MM/DD/YYYY)  
10/27/2010

THIS EVIDENCE OF PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.

<b>AGENCY</b> MARSH RISK & INSURANCE SERVICES 345 CALIFORNIA STREET, SUITE 1300 CALIFORNIA LICENSE NO. 0437153 SAN FRANCISCO, CA 94104 Attn: SanFrancisco.Certs@marsh.com 212-948-0398 S46029--10-11		<b>PHONE</b> (A/C, No, Ext):		<b>COMPANY</b> Hartford Fire Insurance Co	
<b>FAX</b> (A/C, No):		<b>E-MAIL ADDRESS:</b>			
<b>CODE:</b>		<b>SUB CODE:</b>			
<b>AGENCY CUSTOMER ID #:</b>					
<b>INSURED</b> Channing House Attn: Julie Jones 850 Webster Street Palo Alto, CA 94301		<b>LOAN NUMBER</b>		<b>POLICY NUMBER</b> 57UUMPC9465	
		<b>EFFECTIVE DATE</b> 10/06/2010		<b>EXPIRATION DATE</b> 10/06/2011	
				<input type="checkbox"/> <b>CONTINUED UNTIL TERMINATED IF CHECKED</b>	
<b>THIS REPLACES PRIOR EVIDENCE DATED:</b>					

## PROPERTY INFORMATION

<b>LOCATION/DESCRIPTION</b> Evidence of Insurance only
<p>THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS EVIDENCE OF PROPERTY INSURANCE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.</p>

## COVERAGE INFORMATION

COVERAGE / PERILS / FORMS	AMOUNT OF INSURANCE	DEDUCTIBLE
BLANKET BUILDINGS:	150,100,000	5,000
BLANKET BUSINESS PERSONAL PROPERTY:	1,500,000	
BLANKET BUSINESS INCOME:	10,934,000	
EQUIPMENT BREAKDOWN - INCLUDED UPTO \$100,000,000	INCLUDED	
EARTHQUAKE SPRINKLER LEAKAGE	5,000,000	
EARTHQUAKE & FLOOD EXCLUDED		
DEDUCTIBLES: \$5,000 EXCEPT \$100,000 EARTHQUAKE SPRINKLER LEAKAGE		

## REMARKS (Including Special Conditions)

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## CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

## ADDITIONAL INTEREST

SEA-001903957-15

<b>NAME AND ADDRESS</b> Channing House Attn: Julie Jones 850 Webster Street Palo Alto, CA 94301	<b>MORTGAGEE</b>	<b>ADDITIONAL INSURED</b>
	<b>LOSS PAYEE</b>	
	<b>LOAN #</b>	
<b>AUTHORIZED REPRESENTATIVE</b> of Marsh Risk & Insurance Services Susan Goggin <i>Susan Goggin</i>		



Report of Independent Auditor and  
Financial Statements



February 28, 2011 and 2010



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RECEIVED  
JUN 28 2011  
CONTINUING CARE  
CONTRACTS BRANCH**REPORT OF INDEPENDENT AUDITOR**

Board of Trustees  
Channing House (a Nonprofit Corporation)  
Palo Alto, California

We have audited the accompanying statements of financial position of Channing House (a nonprofit corporation) as of February 28, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Channing House. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the above financial statements referred to above present fairly, in all material respects, the financial position of Channing House as of February 28, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California  
June 3, 2011



## FINANCIAL STATEMENTS

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**CHANNING HOUSE**  
**STATEMENT OF FINANCIAL POSITION**  
**February 28, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 671,465	\$ 303,450
ACCOUNTS RECEIVABLE	55,211	36,418
INVENTORY	5,390	4,202
PREPAID EXPENSES	162,271	114,247
INVESTMENTS, at fair value	52,962,971	14,582,350
PROPERTY AND EQUIPMENT, net	47,548,196	41,072,899
DEBT ISSUANCE COSTS	4,025,375	145,776
TOTAL ASSETS	<u>\$ 105,430,879</u>	<u>\$ 56,259,342</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 3,135,868	\$ 1,270,093
LIABILITIES FROM SPLIT INTEREST GIFTS	101,380	108,738
FUTURE SERVICE OBLIGATION	2,300,000	500,000
DEFERRED REVENUE FROM ENTRANCE FEES	19,711,744	17,882,246
DEBT	63,455,057	18,817,020
TOTAL LIABILITIES	<u>88,704,049</u>	<u>38,578,097</u>
NET ASSETS		
UNRESTRICTED		
UNDESIGNATED	16,263,882	14,629,354
BOARD DESIGNATED	193,001	178,933
TEMPORARILY RESTRICTED	269,947	2,872,958
TOTAL NET ASSETS	<u>16,726,830</u>	<u>17,681,245</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 105,430,879</u>	<u>\$ 56,259,342</u>

*See accompanying notes.*



**CHANNING HOUSE**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Years Ended February 28, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
REVENUES, GAINS AND OTHER SUPPORT		
Monthly care fees	\$ 8,708,513	\$ 8,224,987
Resident entrance fees earned	2,898,391	3,156,297
Interest on escrow funds	1,545	-
Interest and dividend income	658,691	507,335
Other services	442,599	415,007
Donations and other	15,965	23,530
Net realized gain (loss) on abandonment of property and equipment	(667)	(1,923)
Operating revenues	12,725,037	12,325,233
Future service obligation	(1,800,000)	1,200,000
Net assets released from restriction for operations	37,956	41,006
Total revenues	<u>10,962,993</u>	<u>13,566,239</u>
EXPENSES		
Medical	2,647,080	2,647,842
Food services	2,352,632	2,371,754
Operating and maintenance	1,794,461	1,768,327
Administrative	1,799,774	1,792,219
Housekeeping	781,982	689,327
Depreciation and amortization	1,984,982	1,797,504
Interest expense	459,233	1,072,187
Total expenses	<u>11,820,144</u>	<u>12,139,160</u>
INCOME (LOSS) BEFORE INVESTMENT INCOME AND UNREALIZED GAINS ON INVESTMENTS	(857,151)	1,427,079
INVESTMENT INCOME (LOSS)		
Net realized gain (loss) on investments	528,899	(15,763)
Total investment income (loss)	<u>528,899</u>	<u>(15,763)</u>
NET INCOME	(328,252)	1,411,316
Loss from extinguishment of debt	(629,856)	-
Net unrealized gain (loss) on investments	(120,316)	1,643,125
Change in value of split interest gifts	(26,501)	(29,999)
Net assets released from restriction for purchase of property and equipment	2,762,212	-
Income (loss) from increase/decrease in unrecognized pension obligation	(8,691)	43,720
Net increase in unrestricted net assets	<u>1,648,596</u>	<u>3,068,162</u>
Temporarily restricted		
Donations and other	197,157	292,650
Total temporarily restricted revenues	<u>197,157</u>	<u>292,650</u>
Net assets released from restriction for operations	(37,956)	(41,006)
Net assets released from restriction for purchase of property and equipment	<u>(2,762,212)</u>	<u>-</u>
Net increase/(decrease) in temporarily restricted net assets	(2,603,011)	251,644
Increase/(decrease) in net assets	(954,415)	3,319,806
NET ASSETS		
Beginning of year	<u>17,681,245</u>	<u>14,361,439</u>
End of year	<u>\$ 16,726,830</u>	<u>\$ 17,681,245</u>

See accompanying notes.

**CHANNING HOUSE**  
**STATEMENT OF CASH FLOWS**  
**Years Ended February 28, 2011 and 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Monthly care fees	\$ 8,727,306	\$ 8,203,470
Entrance fee proceeds	5,206,000	3,684,000
Entrance fee refunds	(478,111)	(53,854)
Other receipts from operations	442,599	415,007
Investment income received	660,236	507,335
Donations and miscellaneous revenues	213,122	316,180
Cash paid to employees and suppliers	(7,032,024)	(9,050,970)
Interest paid	(503,954)	(1,073,300)
Net cash from operating activities	<u>7,235,174</u>	<u>2,947,868</u>
<b>CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES</b>		
Realized (gain)/loss on investments	(528,899)	15,763
Proceeds from sales of investments	9,241,296	4,093,300
Cost of purchases of investments	(47,213,334)	(4,011,650)
Proceeds from sale of property and equipment	1,000	-
Purchases of property and equipment	(8,357,555)	(3,154,772)
Net cash (used in) investing activities	<u>(46,857,492)</u>	<u>(3,057,359)</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Net proceeds on issuance of long term debt	63,514,279	-
Payments on long-term debt	(19,301,100)	(570,000)
Payments for deferred issuance cost	(4,188,987)	-
Split interest gifts		
Payments to beneficiaries	(32,301)	(32,301)
Income reinvested	(1,558)	(1,107)
Net cash (used in) from financing activities	<u>39,990,333</u>	<u>(603,408)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	368,015	(712,899)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>303,450</u>	<u>1,016,349</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 671,465</u></u>	<u><u>\$ 303,450</u></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (954,415)	\$ 3,319,806
Adjustments to reconcile net assets to net cash from operating activities		
Depreciation	1,880,592	1,774,317
Loss from extinguishment of debt	629,856	-
Amortization of debt issuance costs	94,712	7,731
Amortization of bond discount	9,678	15,456
Amortization of deferred revenue from entrance fees	(2,898,391)	(3,156,297)
Change in fair value of split interest gifts	26,501	29,999
Future service obligation	1,800,000	(1,200,000)
Unrealized (gain)/loss on investments	120,316	(1,643,125)
Loss (gain) on abandonment of property and equipment	667	1,923
Net proceeds from entrance fees	4,727,889	3,630,146
Changes in operating assets and liabilities		
Accounts receivable	(18,793)	21,517
Inventory	(1,188)	(1,518)
Prepaid expenses	(48,024)	24,062
Accounts payable and accrued liabilities	1,865,774	123,851
Net cash from operating activities	<u><u>\$ 7,235,174</u></u>	<u><u>\$ 2,947,868</u></u>

*See accompanying notes.*

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**History and organization** – Channing House is a nonprofit public benefit corporation licensed by the State of California Department of Public Health and California Department of Social Services, to provide housing, related facilities and health services for elderly persons. Channing House was incorporated in 1960, under the laws of the State of California. The facility it operates has 186 apartments, 48 assisted living beds and 21 skilled nursing beds.

Upon entering Channing House, residents pay an entrance fee, which varies by resident depending upon the size and location of the apartment. Monthly care fees vary based on apartment size. Residents are provided housing, meals and medical care for their stays at Channing House. A decreasing portion of the entrance fee is refundable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. Entrance fees subject to refund at February 28, 2011 and 2010, were \$10,781,888 and \$9,201,464, respectively.

Channing House is subject to statutory reserve requirements. At February 28, 2011 and 2010, Channing House's reserves, as calculated in accordance with the continuing care contract statutes of the California Health and Safety Code, were in excess of such requirements.

Channing House is exempt from property taxes; however, it makes an "in-lieu-of" payment to the City of Palo Alto based upon the assessed valuation of land, improvements and unsecured property.

**Net asset classifications** – The accompanying financial statements have been prepared in accordance with the standards set forth in Financial Accounting Standards Board (the "FASB") Accounting Standards Codification (the "ASC") Topic 715, *Compensation – Retirement Benefits* and FASB ASC Topic 958, *Not-for-Profit Entities* and the guidelines set forth in the industry audit and accounting guide "Health Care Organizations" issued by the American Institute of Certified Public Accountants. Under these guidelines, contributions of cash and other assets are classified as one of the following three categories:

*Unrestricted* – Unconditional promises to give by donors without any use or time restrictions. Included within unrestricted is board designated funds of \$193,001 and \$178,933 at February 28, 2011 and 2010, respectively, subject to board approval. The purpose of these funds is to provide on-going support for the charitable needs of Channing House and its residents. The Board of Trustees of Channing House is authorized to spend the income and appreciation of these funds as it shall deem reasonable, in order to further the mission and purpose of Channing House.

*Temporarily Restricted* – Unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. Donor restrictions released in the year received are recorded as unrestricted contributions.

*Permanently Restricted* – Unconditional promises to give by donors that specify assets donated be invested to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the organization may determine the income's availability to the organization's operations. Channing House had no permanently restricted net assets as of February 28, 2011 and 2010. Contribution revenue is recognized in the appropriate net asset classification when the gift is unconditionally promised.

**Cash and cash equivalents** – Channing House considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. Cash equivalents will include restricted cash and cash designated for specific projects.

**Concentration of credit risk** – Financial instruments potentially subjecting Channing House to concentrations of credit risk consist primarily of bank demand deposits in excess of the Federal Deposit Insurance Corporation insurance thresholds and cash held in money market accounts in excess of the amounts insured by the U.S. Treasury insurance for money market funds. Demand deposits are placed with local financial institutions, and management has not experienced any loss related to these demand deposits in the past. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. It is at least reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amount reported in the consolidated financial statements. The risk associated with the investments is mitigated through diversification.

**Inventory** – Inventory is stated at cost, which is determined on the first-in, first-out method of accounting. Inventory consisted of gift shop supplies as of February 28, 2011 and 2010.

**Investments** – Investments are carried at fair value based on quoted market prices. The cost of investments sold is determined on an average cost basis. Realized and unrealized gains and losses are included in unrestricted net assets as the investments are considered trading securities.

## CHANNING HOUSE

### NOTES TO FINANCIAL STATEMENTS

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**Accounts receivable** – Channing House extends credit to its residents for the payment of the monthly care fee, since each resident is directly responsible to pay Channing House. Management asserts that collection of monthly care fees is not considered an issue; therefore no allowance for doubtful accounts has been recorded.

**Property and equipment** – Property and equipment are stated at cost. The cost basis includes any interest, finance charges and other related costs capitalized during construction. Depreciation is based upon the straight-line method over the estimated useful lives of the various classes of property, which range from 10 to 50 years. Channing House records assets acquired by donation at the estimated fair-market value at the date of donation.

**Asset impairment** – Channing House periodically evaluates the carrying value of their long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized.

**Liabilities from split interest gifts** – In conjunction with certain giving arrangements, Channing House is required to pay a certain sum of money to the donor or a designated beneficiary and consequently, a liability is reflected in obligations under annuity agreements in the accompanying statements of financial position.

**Debt issuance costs** – The cost of issuing Series 2010 Revenue Bonds (see Note 4) totaled \$4,116,861, and are being amortized using the straight line method over the term of the bond. Accumulated amortization was \$91,486 and \$0 for 2011 and 2010, respectively. Deferred debt issuance costs of \$145,776 were written off in 2010 as a component of amortization expense on the early refunding of the March 1999 Revenue Certificates of Participation ("Series 1999").

**Resident entrance fees** – Resident entrance fees are recorded as deferred revenue and are amortized on a straight-line basis over the actuarially determined life expectancy of the resident. There is only one type of contract in use in which entrance fee is refundable by cancellation or termination of the care agreement during the first six years of occupancy, subject to a 10% minimum retention by Channing House. There are no re-occupancy requirements on current contract.

**Malpractice insurance coverage** – Channing House is covered for malpractice insurance under an occurrence basis policy with coverage of \$1,000,000 each occurrence and \$3,000,000 in the aggregate. Channing House has not experienced claims in excess of these coverage limits.

**Income taxes** – Channing House has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. Channing House adopted the provisions of FASB ASC Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on March 1, 2008. They had no unrecognized tax benefits which would require an adjustment to the March 1, 2010 beginning balance of net assets and had no unrecognized tax benefits at February 28, 2011. Channing House files federal and California exempt organization returns. They are no longer subject to income tax examinations by taxing authorities for years before 2006 for its federal and 2005 for its state tax filings.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include deferred revenue and pension costs. Actual results could differ from those estimates.

**New accounting pronouncements** – In September 2009, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This guidance adds new requirements for disclosures about transfers in and out of Level 1 and Level 2 measurements and the reasons for the transfers; and a gross presentation activity within the Level 3 roll forward, presenting separately information about purchases, sales, issuances, and settlements. This guidance is effective for annual reporting periods beginning after December 15, 2009. Channing House adopted this guidance during 2011. Additional disclosures about fair value measurement are included in Note 8.

**Reclassifications** – Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on net income or net assets as previously reported.

**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – INVESTMENTS**

Investments at fair value consisted of the following at February 28:

	<u>2011</u>	<u>2010</u>
U.S. government securities	\$ 43,420,144	\$ 2,786,344
Fixed income mutual fund	7,273,284	9,894,238
Equity mutual funds	2,168,163	1,793,030
Other	101,380	108,738
	<u>\$ 52,962,971</u>	<u>\$ 14,582,350</u>

Investment securities include funds established pursuant to reserve requirements relating to split interest gifts of \$101,380 and \$108,740 at February 28, 2011 and 2010, respectively, as set forth by the State Insurance Commission.

Escrow funds are included in U.S. government securities. Such funds were established pursuant to the trust agreement executed in connection with the issuance of the 2010 bond (Note 4). The escrow funds consisted of the following at February 28:

	<u>2011</u>	<u>2010</u>
Reserve account	\$ 4,201,847	\$ 1,647,101
Principal/interest account	1,573,990	137,659
Capitalized interest fund	2,101,140	-
Health center project fund	32,582,667	-
	<u>\$ 40,459,644</u>	<u>\$ 1,784,760</u>

Channing House is required to maintain \$4,200,000 in the reserve account.

Additional disclosures about fair value measurement are included in Note 8.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment at February 28:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 1,516,398	\$ 1,616,398
Building and improvements	48,750,704	45,509,634
Equipment and furnishings	6,211,558	5,434,689
Construction in progress	10,724,381	6,537,582
Total	67,203,041	59,098,303
Less accumulated depreciation	<u>(19,654,845)</u>	<u>(18,025,404)</u>
Property and equipment, net	<u>\$ 47,548,196</u>	<u>\$ 41,072,899</u>

Depreciation expense was \$1,880,592 and \$1,774,317 for 2011 and 2010, respectively.

## CHANNING HOUSE

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE 4 – LONG-TERM DEBT

In July 2010, Channing House issued \$64,020,000 of Insured Revenue Bonds ("Series 2010"), net of bond discount of \$577,847, which are due in varying annual principal installments through May 2040. Interest payments are made semi-annually. The stated interest ranges from 3.00% to 6.125% with an average coupon of 5.95%. Principal payments commence in fiscal year ending February 2012. Payment of the obligations is secured by gross revenues from the facility and is insured with the Office of Statewide Health Planning and Development of the State of California. Proceeds from the Series 2010 bond were used to refund Series 1999 Certificates of Participation, fund the construction of a new two-story health center, and remodel an existing floor with fourteen new apartment units. Refunding of Series 1999 Certificates of Participation was completed in August 2010. Construction on the new health center building is estimated for completion in April 2012 with the fourteen new apartments estimated for December 2012.

Channing House is subject to certain financial covenants related to its Series 2010 debt. Management represents that Channing House was in compliance with these covenants as of February 28, 2011.

Capitalized interest expense was \$2,317,176 and \$0 for 2011 and 2010, respectively.

Maturities of the Series 2010 bond during each of the next five years and thereafter are as follows:

#### Year Ending February 28,

2012	\$	505,000
2013		605,000
2014		625,000
2015		645,000
2016		680,000
Thereafter		<u>60,395,057</u>
Total	\$	<u>63,455,057</u>

#### NOTE 5 – PENSION PLAN

Channing House has a noncontributory defined benefit pension plan (the "Plan") which covers all employees who have completed one year of service and who have attained the age of 21. Benefits are computed by a formula based upon years of service and the employee's average compensation over the final five years of employment, subject to a minimum benefit. Channing House's funding policy for the Plan is to contribute an amount for each plan year that is no less than the minimum amount required by law under ERISA and the Internal Revenue Code using the Unit Credit actuarial cost method. At Channing House's discretion, additional amounts may be contributed in excess of the minimum required contribution. Total benefits and expenses paid amounted to \$210,345 and \$218,318, respectively, for the years ended February 28, 2011 and 2010.

The broad-based investment goals of the Plan are to: (1) at a minimum, preserve the inflation-adjustment value of the Pension assets after administrative costs and benefit payments; (2) prudently invest assets in high-quality, diversified manner; (3) achieve the optimal return possible within the specified risk parameters; (4) achieve the actuarial earnings assumptions; and (5) adhere to the established guidelines.

**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

The following table sets forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit costs for the pension plan for the years ended February 28:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,996,436	\$ 2,048,046
Service cost	25,721	18,344
Interest cost	125,305	127,569
Liability (gain) / loss	41,081	20,795
Expenses and benefits paid	<u>(210,345)</u>	<u>(218,318)</u>
Benefit obligation at end of year	<u>\$ 1,978,198</u>	<u>\$ 1,996,436</u>
Change in plan assets:		
Plan assets beginning of year	\$ 1,706,570	\$ 1,703,890
Employer contributions	92,653	70,508
Actual return	117,886	150,490
Expenses and benefits paid	<u>(210,345)</u>	<u>(218,318)</u>
Plan assets end of year	<u>1,706,764</u>	<u>1,706,570</u>
Funded status	(271,434)	(289,866)
Effect of adoption of FASB ASC Topic 715	<u>603,042</u>	<u>594,351</u>
Prepaid pension cost	<u>\$ 331,608</u>	<u>\$ 304,485</u>

The net periodic pension expense included the following components for the years ended February 28:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 25,721	\$ 18,344
Interest cost	125,305	127,569
Actual return on asset - gain	(117,886)	(150,490)
Amortization of net loss from earlier periods	29,466	29,010
Amortization of net gain during the period	<u>2,924</u>	<u>35,505</u>
Total	<u>\$ 65,530</u>	<u>\$ 59,938</u>

The following weighted-average assumptions were used to determine the plan's benefit obligation at February 28:

	<u>2011</u>	<u>2010</u>
Discount rates	6.5%	6.5%
Expected return on plan assets	7.0%	7.0%
Rate of compensation increase	0.0%	0.0%

**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

The composition of plan assets is as follows at February 28:

	<b>2011</b>	<b>2010</b>
Insurance company general account	77%	83%
Equity funds	11%	10%
Money market funds	12%	7%
Total	100%	100%

The fair values of Channing House's pension plan assets by asset category are as follows at February 28, pursuant to FASB ASC Topic 820 as more fully described in Note 8:

	<b>Total 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment contract with insurance company	\$ 1,320,150	\$ -	\$ -	\$ 1,320,150
Equity funds	184,742	-	184,742	-
Money market funds	201,872	-	201,872	-
Total Investments	<u>\$ 1,706,764</u>	<u>\$ -</u>	<u>\$ 386,614</u>	<u>\$ 1,320,150</u>

	<b>Total 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investment contract with insurance company	\$ 1,410,574	\$ -	\$ -	\$ 1,410,574
Equity funds	130,199	-	130,199	-
Money market funds	165,797	-	165,797	-
Total Investments	<u>\$ 1,706,570</u>	<u>\$ -</u>	<u>\$ 295,996</u>	<u>\$ 1,410,574</u>

The following table reconciles the beginning and ending balances of recurring fair value measurements recognized in the accompanying financial statements using significant unobservable (Level 3) inputs:

	<b>Investment Contract with Insurance Company</b>
Beginning balance at 2/28/2010	\$ 1,410,574
Actual return on plan assets:	
relating to assets still held at the reporting date	62,925
relating to assets sold during the period	-
Purchases, sales, and settlements	(153,349)
Transfers in and/or out of Level 3	-
Ending balance at 2/28/2011	<u>\$ 1,320,150</u>



**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

	<u>Investment Contract with Insurance Company</u>
Beginning balance at 2/28/2009	\$ 1,497,194
Actual return on plan assets:	
relating to assets still held at the reporting date	69,187
relating to assets sold during the period	-
Purchases, sales, and settlements	(155,807)
Transfers in and/or out of Level 3	-
Ending balance at 2/28/2010	<u>\$ 1,410,574</u>

The effect of the adoption of FASB issued ASC Topic 715, *Compensation - Retirement Benefits*, was to increase the liability of the pension plan by \$8,691 in 2011 and decrease the liability by \$43,720 in 2010, respectively, which is included in Accrued Liabilities. There was also a corresponding decrease to unrestricted net assets of \$8,691 in 2011, and an increase to unrestricted net asset of \$43,720 in 2010, respectively.

**Estimated Future Benefit Payments** – Expected benefits to be paid in the next ten years as calculated by consulting the actuary are:

<u>Fiscal Year</u>	<u>Expected Payment</u>
2011	\$ 200,000
2012	\$ 201,300
2013	\$ 204,500
2014	\$ 207,400
2015	\$ 216,400
2016-2020	\$ 1,222,200

**Plan amendment** – At December 31, 2001, the Board of Trustees approved changes to the defined benefit pension plan that effectively froze the plan. No new participants are permitted into the plan and no future benefits will accrue for participants in the plan on or before December 31, 2001. The effect of the change was a curtailment gain of \$177,087, which reduced the projected benefit obligation in accordance with FASB ASC Topic 715, *Compensation - Retirement Benefits*. Also in accordance with FASB ASC Topic 715, the previously unrecognized prior service cost of \$17,581 was accelerated in prior years.

**Defined contribution plan** – Effective January 1, 2002, Channing House established a 403(b) plan for substantially all employees. Participants may contribute a percentage of compensation up to the maximum permitted by the Internal Revenue Code. Employer contributions and costs are based on a percentage of covered employees' salaries. Employer contributions were \$134,367 and \$128,198 for the years ended February 28, 2011 and 2010, respectively.

**Deferred compensation plan** – Effective November 1, 2008, Channing House established a 457(b) plan for key management staff. This plan is intended to constitute an unfunded, eligible deferred compensation plan as described in IRC Section 457(b). The Plan calls for discretionary contributions as approved each year by the Board of Trustees. Participants may contribute a percentage of compensation up to the maximum permitted by the Internal Revenue Code. Employer contributions were \$41,111 and \$48,037 for the year ended February 28, 2011 and 2010, respectively.

**NOTE 6 – FUTURE SERVICE OBLIGATION**

Channing House is obligated to provide its residents continuous care throughout the residents' stay at the facility. Management's estimates of the liability for "future service obligation" represents the excess of the discounted net care expenses over the deferred revenue from entrance fees. The obligation is discounted at 6%.

**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following at February 28:

	<b>2011</b>	<b>2010</b>
Healthcare center	\$ -	\$ 2,565,055
Residents' assistance	269,947	307,903
	<u>\$ 269,947</u>	<u>\$ 2,872,958</u>

Temporarily restricted net assets were released for the following as of February 28:

	<b>2011</b>	<b>2010</b>
Residents' assistance	\$ 37,956	\$ 37,956
Car donation	-	2,000
Tutoring	-	900
Second floor garden	-	150
Healthcare center	2,762,212	-
	<u>\$ 2,800,168</u>	<u>\$ 41,006</u>

**NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities.

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investments in the near term.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodology used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy:

*Investments:* Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

The following table presents the fair value measurements of investments recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the FASB ASC Topic 820 fair value hierarchy in which the fair value measurements fall at February 28:

	<b>Total 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Government Securities	\$ 43,420,144	\$ 43,420,144	\$ -	\$ -
Fixed Income Mutual Fund	7,273,284	7,273,284	-	-
TIFF Equity Funds	2,168,163	-	2,168,163	-
Charitable gift annuities	101,380	101,380	-	-
<b>Total Investments</b>	<b>\$ 52,962,971</b>	<b>\$ 50,794,808</b>	<b>\$ 2,168,163</b>	<b>\$ -</b>

	<b>Total 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
U.S. Government Securities	\$ 2,786,344	\$ 2,786,344	\$ -	\$ -
Fixed Income Mutual Fund	9,894,238	9,894,238	-	-
TIFF Equity Funds	1,793,030	-	1,793,030	-
Charitable gift annuities	108,738	108,738	-	-
<b>Total Investments</b>	<b>\$ 14,582,350</b>	<b>\$ 12,789,320</b>	<b>\$ 1,793,030</b>	<b>\$ -</b>

As required by ASC Topic 820, the investments are classified within the level of the lowest significant input considered in determining fair value. In evaluating the level at which the Channing House's investments have been classified, Channing House has assessed factors including, but not limited to the ability to redeem at net asset value ("NAV") at the measurement date and the existence or absence of certain restrictions at the measurement date. In accordance with this guidance, if Channing House has the ability to redeem from the investment at the measurement date or in the near-term at NAV, the investment would be classified as a Level 2 fair value measurement. Alternatively, if Channing House will never have the ability to redeem from the investment or is restricted from redeeming for an uncertain or extended period of time from the measurement date, the investment would be classified as a Level 3 fair value measurement.

The following table provides the fair value and redemption terms and restrictions for investments redeemable at net asset value at February 28, 2011:

<b>Fund type</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
TIFF Equity Funds	\$ 2,168,163	\$ -	Daily	1 day

*TIFF Equity Funds* – This class invests in commingled equity mutual funds (domestic and international) composed primarily of publicly traded common stock. The fair values of the investments in this category have been estimated using the net asset value per share of the investments

The following methods and assumptions were used by Channing House in estimating the fair value of other financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

*Accounts payable and accrued expenses:* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

*Debt:* The fair value of notes and bonds payable is estimated based on discounted cash flow analyses, based on Channing House's current incremental borrowing rates for similar types of borrowing arrangements.

**CHANNING HOUSE**  
**NOTES TO FINANCIAL STATEMENTS**

The carrying amounts and fair values of Channing House's financial instruments at February 28 are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	\$ 671,465	\$ 671,465	\$ 303,450	\$ 303,450
Investments	\$ 52,962,971	\$ 52,962,971	\$ 14,582,350	\$ 14,582,350
Accounts payable and accrued expenses	\$ 3,135,868	\$ 3,135,868	\$ 1,270,093	\$ 1,270,093
Liabilities from split interest gifts	\$ 101,380	\$ 101,380	\$ 108,738	\$ 108,738
Future Service Obligation	\$ 2,300,000	\$ 2,300,000	\$ 500,000	\$ 500,000
Debt	\$ 63,455,057	\$ 62,034,372	\$ 18,817,020	\$ 17,446,598

Considerable judgment is required to develop estimates of fair value, and the estimates presented are not necessarily indicative of the amounts that Channing House would realize in a current market exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair values. The estimates presented are based on pertinent information available to management as of February 2011 and 2010. Current estimates of fair value may differ significantly from the amounts presented.

**NOTE 9 – HEALTH AND SAFETY CODE SECTION 1790(A)(3) DISCLOSURE**

The Board of Trustees of Channing House in 2010 established a Capital Reserve Fund to be used to pay for future board-approved capital improvements. These improvements are necessary and consistent with Channing House's exempt purpose to maintain and provide facilities essential to meet the housing, health care and other needs of its elderly residents. At February 28, 2011, the amount in this fund was \$2,000,000.

Improvements made during the year included: a) Heating and ventilation upgrades of \$220,759; b) Glazing replacements of \$361,186; c) Apartment renovations of \$867,988; and d) Other Building Equipment & Furnishings of \$769,703.

In order to provide up-to-date health care facilities for Channing House's continuum of care, the Board of Trustees in 2010 issued \$64,020,000 of Insured Revenue Bonds. Consistent with Channing House's nonprofit status, the Bonds were necessary to improve facilities essential to their provision of housing, health care, and financial security to their aged residents. During the fiscal year, these bonds were used in the following manner: a) The Health Center Project Fund was established with \$35,615,357 in Bond funds. Withdrawals of \$3,106,062 were made for construction costs during the year; b) Costs for refinancing the 2003 Seismic Certificates of Participation were \$19,805,053; c) Costs of issuance for the 2010 bonds were \$4,188,987, including \$3,782,180 to Cal Mortgage for Bond Insurance Premium and other fees; d) a Bond Reserve Account was established, in the amount of \$4,201,694; e) Capitalized interest was funded in the amount of \$4,564,689. Of this amount, a total of \$2,317,176 was spent towards needed improvements.

**NOTE 10 – CONTINGENCIES**

**Litigation** – Channing House was involved in litigation in U.S. District Court concerning the proposed relocation of a resident from an independent living apartment to a higher level of care (either skilled nursing or assisted living) due to the resident's increasing healthcare needs. The litigation was settled in March 2010 and there are no monetary losses to Channing House as a result of this settlement.

Channing House is party to claims and legal actions in the normal course of business. In the opinion of management, and based on current facts and circumstances, the resolution of such matters is not expected to have a material adverse effect on the financial position of Channing House.

**Health care reform** – In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Channing House is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations or interpretive guidance. However, Channing House expects that provisions of the Health Care Reform Legislation will have some effect on its business.

**NOTE 11 – SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. Channing House recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. Channing House's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. Channing House will review effects of the Health Care Reform Legislation as discussed in Note 10 and disclose impacts accordingly.

Channing House has evaluated subsequent events through June 3, 2011, which is the date the financial statements are issued.



Report of Independent Auditor and  
Continuing Care Reserve Report



February 28, 2011

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

**REPORT OF INDEPENDENT AUDITOR**

Board of Trustees  
Channing House (Nonprofit Corporation)  
Palo Alto, California

We have audited the accompanying continuing care reserve report (the "Reports") (Form 5 Series) of Channing House as of February 28, 2011. These Reports are the responsibility of Channing House management. Our responsibility is to express an opinion on the Reports based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Reports are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Channing House's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Reports, assessing the accounting principles used and significant estimates made by Channing House management, as well as evaluating the overall presentation of the Reports. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Reports were prepared for the purpose of complying with California Health and Safety Code Section 1792 and are not intended to be a complete presentation of Channing House's assets, liabilities, revenues and expenses.

In our opinion, the Reports present fairly, in all material respects, the liquid reserve requirements of Channing House as of February 28, 2011, in conformity with the report preparation provisions of the California Health and Safety Code Section 1792.

This report is intended solely for the information and use of the Board of Directors and management of Channing House and for filing with the California Department of Social Services and should not be used for any other purposes. However, this report is a matter of public record and its distribution is not limited.



San Francisco, California  
June 9, 2011



CHANNING HOUSE  
SUPPLEMENTAL INFORMATION  
STATEMENT OF CASH FLOWS – DIRECT METHOD  
February 28, 2011

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CASH FLOWS FROM OPERATING ACTIVITIES

Monthly care fees	\$ 8,727,306
Entrance fees proceeds	5,206,000
Entrance fees refunds	(478,111)
Other receipts from operations	442,599
Investment income received	660,236
Donations and miscellaneous revenues	213,122
Cash paid to employees and suppliers	(7,032,024)
Interest paid	(503,954)

Net cash from operating activities	7,235,174
------------------------------------	-----------

CASH FLOWS FROM INVESTING ACTIVITIES

Realized gain on investments	(528,899)
Proceeds from sales of investments	9,241,296
Cost of purchases of investments	(47,213,334)
Proceeds from sale of property and equipment	1,000
Purchases of property and equipment	(8,357,555)

Net cash used in investing activities	(46,857,492)
---------------------------------------	--------------

CASH FLOWS FROM FINANCING ACTIVITIES

Net proceeds on issuance of long-term debt	63,514,279
Payments on long-term debt	(19,301,100)
Payments for deferred issuance cost	(4,188,987)
Split interest gifts	
Payments to beneficiaries	(32,301)
Income reinvested	(1,558)

Net cash from financing activities	39,990,333
------------------------------------	------------

NET CHANGE IN CASH AND CASH EQUIVALENTS	368,015
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CASH AND CASH EQUIVALENTS, beginning of year	303,450
--	---------

CASH AND CASH EQUIVALENTS, end of year	\$ 671,465
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**CHANNING HOUSE**  
**SUPPLEMENTAL INFORMATION**  
**STATEMENT OF CASH FLOWS – DIRECT METHOD**  
**February 28, 2011**

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CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (954,415)
Adjustments to reconcile net assets to net cash from operating activities	
Depreciation	1,880,592
Loss from extinguishment of debt	629,856
Amortization of debt issuance costs	94,712
Amortization of certificates of participation discount	9,678
Amortization of deferred revenue from entrance fees	(2,898,391)
Change in fair value of split interest gifts	26,501
Future service obligation	1,800,000
Unrealized loss on investments	120,316
Loss on abandonment of property and equipment	667
Net proceeds from entrance fees	4,727,889
Changes in operating assets and liabilities	
Accounts receivable	(18,793)
Inventory	(1,188)
Prepaid expenses	(48,024)
Accounts payable and accrued liabilities	<u>1,865,774</u>
Net cash from operating activities	<u><u>\$ 7,235,174</u></u>

**FORM 5-1**  
**LONG-TERM DEBT INCURRED**  
**IN A PRIOR FISCAL YEAR**  
**(Including Balloon Debt)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	3/01/99	**	\$459,233	-0-	\$459,233
2					
3					
4					
5					
6					
7					
8					
<b>TOTAL:</b>			\$459,233	-0-	\$459,233

*(Transfer this amount to  
Form 5-3, Line 1)*

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

This ABAG financing was refunded in August 2010

**PROVIDER:** CHANNING HOUSE

**FORM 5-2**  
**LONG-TERM DEBT INCURRED**  
**DURING FISCAL YEAR**  
**(Including Balloon Debt)**

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1	7/1/2010	\$1,268,454*	\$ 505,000**	1	\$ 505,000
2	"		\$1,797,809**	1	\$1,797,809
3	"		\$1,788,972***	1	\$1,788,972
4					
5					
6					
7					
8					
<b>TOTAL:</b>		\$1,268,454	\$4,091,781		\$4,091,781

(Transfer this amount to  
Form 5-3, Line 2)

**NOTE:** For column (b), do not include voluntary payments made to pay down principal.

\*Interest paid from capitalized interest funded through the 2010 bond financing.

\*\*Payment due 5/15/11

\*\*\*Payment due 11/15/11

**PROVIDER:** CHANNING HOUSE

**FORM 5-3**  
**CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT**

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	\$ 459,233
2	Total from Form 5-2 bottom of Column (e)	\$4,091,781
3	Facility leasehold or rental payment paid by provider during fiscal year. (including related payments such as lease insurance)	\$0
4	<b>TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:</b>	<b>\$4,551,014</b>

**PROVIDER:** CHANNING HOUSE

**FORM 5-4**  
**CALCULATION OF NET OPERATING EXPENSES**

Line		Amounts	TOTAL
1	Total operating expenses from financial statements		\$11,820,144
2	Deductions		
a	Interest paid on long-term debt (see instructions)	459,233	
b	Credit enhancement premiums paid for long-term debt (see instructions)	-0-	
c	Depreciation	1,880,592	
d	Amortization	104,390	
e	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	-0-	
f	Extraordinary expenses approved by the Department	-0-	
3	Total Deductions		2,444,215
4	Net Operating Expenses		
5	Divide Line 4 by 365 and enter the result.		\$9,375,929
6	<b>Multiply Line 5 by 75 and enter the result.</b> This is the provider's operating expense reserve mount.		25,687.48
			\$1,926,561

**PROVIDER:** CHANNING HOUSE

**COMMUNITY:** \_\_\_\_\_

Provider Name: CHANNING HOUSE  
Fiscal Year Ended: 02/28/2011

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

Qualifying assets sufficient to fulfill the above requirements are held as follows:

**Total Amount of Qualifying Assets  
Listed for Liquid Reserve:**

Signature:

Date: 5/23/2011

EXECUTIVE DIRECTOR

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(Title)

Annual Report, Continuing Care Contracts Division  
Section 5-5  
Channing House

Additional Information

1. All Channing House reserves, their description and amounts, have been disclosed elsewhere on form 5-5. We maintain a principal/reserve account for debt servicing, in the amount of \$7,876,977<sup>1</sup>. These accounts are held with our Bond Holder Trustee - BNY Mellon Corporate Trust.

2. Per Capita Operating Costs for Channing House from FY 2001 through FY 2011:

FY 2001	\$24,406
FY 2002	\$27,191
FY 2003	\$28,579
FY 2004	\$29,867
FY 2005	\$30,037
FY 2006	\$31,354
FY 2007	\$33,052
FY 2008	\$33,910
FY 2009	\$35,486
FY 2010	\$38,731
FY 2011	\$38,701

3. As part of our overall investments, sums accumulated to date (2/28/2011), as board designated funds for specific purposes are:

- a. Residents' Assistance Fund (for charity care of residents) \$ 269,947
- b. Endowment \$133,000

Total Board Designated Funds:            \$ 462,948

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<sup>1</sup> Account balance for year ended 02/28/2011.



**Continuing Care Retirement Community  
Disclosure Statement  
General Information**

05/24/2011  
**RECEIVED**  
JUN 28 2011

FACILITY NAME: CHANNING HOUSE  
ADDRESS: 850 WEBSTER STREET ZIP CODE: 94301 PHONE: 650.327.0950  
PROVIDER NAME: SAME FACILITY OPERATOR: SAME  
RELATED FACILITIES: SAM RELIGIOUS AFFILIATION: NONE  
YEAR OPENED: 1964 NO. OF ACRES: 1 MULTI-STORY: ☒ SINGLE STORY: ☐ BOTH: ☐  
MILES TO SHOPPING CTR: 1/2 MILE MILES TO HOSPITAL: 3 MILES

**NUMBER OF UNITS:**

**INDEPENDENT LIVING**

**HEALTH CARE**

APARTMENTS - STUDIO 76  
APARTMENTS - 1 BDRM 93  
APARTMENTS - 2 BDRM 17  
COTTAGES/HOUSES 0  
% OCCUPANCY AT YEAR END 95%

ASSISTED LIVING 48  
SKILLED NURSING 21  
SPECIAL CARE 0  
DESCRIBE SPECIAL CARE: 0

TYPE OF OWNERSHIP: ☒ NOT FOR PROFIT ☐ FOR PROFIT ☐ ACCREDITED: ☐ Y ☒ N BY: \_\_\_\_\_

FORM OF CONTRACT: ☒ LIFE CARE ☐ CONTINUING CARE ☐ FEE FOR SERVICE  
☐ ASSIGN ASSETS ☐ EQUITY ☐ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☐ 90% ☐ 75% ☐ 50% ☐ PRORATED TO 0% ☒ OTHER: 80%

RANGE OF ENTRANCE FEES: \$ 133,000 TO \$ 637,000 LONG-TERM CARE INSURANCE REQUIRED? ☐ Y ☒ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: YES

ENTRY REQUIREMENTS: MIN. AGE: 65 PRIOR PROFESSION: N/A OTHER: N/A

**FACILITY SERVICES AND AMENITIES**

**COMMON AREA AMENITIES**

AVAILABLE FEE FOR SERVICE

**SERVICES AVAILABLE**

INCLUDED IN FEE FOR EXTRA CHARGE

BEAUTY/BARBER SHOP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	HOUSEKEEPING TIMES/MONTH	<u>3</u>	<u>--</u>
BILLIARD ROOM	<input type="checkbox"/>	<input type="checkbox"/>	NUMBER OF MEALS/DAY	<u>3</u>	<u>--</u>
BOWLING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	SPECIAL DIETS AVAILABLE	<u>YES</u>	<u>--</u>
CARD ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
CHAPEL	<input type="checkbox"/>	<input type="checkbox"/>	24-HOUR EMERGENCY RESPONSE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
COFFEE SHOP	<input type="checkbox"/>	<input type="checkbox"/>	ACTIVITIES PROGRAM	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CRAFT ROOMS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ALL UTILITIES EXCEPT PHONE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EXERCISE ROOM	<input checked="" type="checkbox"/>	<input type="checkbox"/>	APARTMENT MAINTENANCE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GOLF COURSE ACCESS	<input type="checkbox"/>	<input type="checkbox"/>	CABLE TV	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIBRARY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LINENS FURNISHED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PUTTING GREEN	<input type="checkbox"/>	<input type="checkbox"/>	LINENS LAUNDERED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SHUFFLEBOARD	<input type="checkbox"/>	<input type="checkbox"/>	MEDICATION MANAGEMENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SPA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	NURSING/WELLNESS CLINIC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-INDOOR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	PERSONAL NURSING/HOME CARE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
SWIMMING POOL-OUTDOOR	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PERSONAL	<input type="checkbox"/>	<input type="checkbox"/>
TENNIS COURT	<input type="checkbox"/>	<input type="checkbox"/>	TRANSPORTATION-PREARRANGED	<input type="checkbox"/>	<input type="checkbox"/>
WORKSHOP	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OTHER <u>TRANS-MED/DENTAL</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OTHER _____	<input checked="" type="checkbox"/>	<input type="checkbox"/>			

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: CHANNING HOUSE

## CCRCs

LOCATION (City, State)

PHONE (with area code)

N/A

## MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

## FREE-STANDING SKILLED NURSING

N/A

## SUBSIDIZED SENIOR HOUSING

N/A

\* PLEASE INDICATE IF THE FACILITY IS LIFE CARE.

PROVIDER NAME: CHANNING HOUSE

	2008	2009	2010	2011
<b>INCOME FROM ONGOING OPERATIONS</b>				
<b>OPERATING INCOME</b> (excluding amortization of entrance fee income)	\$9,265	\$9,204	\$9,147	\$9,811
<b>LESS OPERATING EXPENSES</b> (excluding depreciation, amortization, & interest)	-\$8,449	-\$8,859	-\$9,269	-\$9,376
<b>NET INCOME FROM OPERATIONS</b>	\$816	\$345	-\$122	\$435
<b>LESS INTEREST EXPENSE</b>	-\$1,124	-\$1,099	-\$1,072	-\$459
<b>PLUS CONTRIBUTIONS</b>	\$1,203	\$119	\$316	\$213
<b>PLUS NON-OPERATING INCOME (EXPENSES)</b> (excluding extraordinary items)	\$0	\$0	\$0	\$0
<b>NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION</b>	\$895	-\$635	-\$878	\$189
<b>NET CASH FLOW FROM ENTRANCE FEES</b> (Total Deposits Less Refunds)	\$4,216	\$2,181	\$3,630	\$4,728

**DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END**

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
ABAG-REFUNDED 8/10	\$0	5.50	03/01/99	02/15/99	30 YEARS
ABAG-2010					
INS. REV. BONDS	\$63,455,057	5.95	07/01/10	05/15/40	30 YEARS

**FINANCIAL RATIOS (see next page for ratio formulas)**

	2010 CCAC Medians 50 <sup>th</sup> Percentile (optional)	2009	2010	2011
<b>DEBT TO ASSET RATIO</b>		.35	.32	.60
<b>OPERATING RATIO</b>		1.08	1.13	1.00
<b>DEBT SERVICE COVERAGE RATIO</b>		1.58	2.32	3.42*
<b>DAYS CASH-ON-HAND RATIO</b>		427	459	485

**HISTORICAL MONTHLY SERVICE FEES**

**AVERAGE FEE AND PERCENT CHANGE**

	2008	%	2009	%	2010	%	2011
STUDIO	\$1,962	5.5%	\$2,237	14.0%	\$2,371	6.0%	\$2,466
ONE BEDROOM	\$3,000	5.5%	\$3,420	14.0%	\$3,625	6.0%	\$3,770
TWO BEDROOM	\$5,633	5.5%	\$6,422	14.0%	\$6,807	6.0%	\$7,079
COTTAGE/HOUSE	0	0.0%	\$0	0.0%	\$0	0.0%	\$0
ASSISTED LIVING	\$1,962	5.5%	\$2,237	14.0%	\$2,371	6.0%	\$2,466
SKILLED NURSING	\$1,962	5.5%	\$2,237	14.0%	\$2,371	6.0%	\$2,466
SPECIAL CARE		0.0%		0.0%		0.0%	

**COMMENTS FROM PROVIDER:** \*Calculation includes capitalized interest from the 2010 bond financing.

## FINANCIAL RATIO FORMULAS

### LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

### OPERATING RATIO

$$\frac{\begin{array}{l} \text{Total Operating Expenses} \\ \text{-- Depreciation Expense} \\ \text{-- Amortization Expense} \end{array}}{\begin{array}{l} \text{Total Operating Revenues} \\ \text{-- Amortization of Deferred Revenue} \end{array}}$$

### DEBT SERVICE COVERAGE RATIO

$$\frac{\begin{array}{l} \text{Total Excess of Revenues over Expenses} \\ \text{+ Interest, Depreciation,} \\ \text{and Amortization Expenses} \\ \text{-- Amortization of Deferred Revenue} \\ \text{+ Net Proceeds from Entrance Fees} \end{array}}{\text{Annual Debt Service}}$$

### DAYS CASH ON HAND RATIO

$$\frac{\begin{array}{l} \text{Unrestricted Current Cash} \\ \text{And Investments} \\ \text{+ Unrestricted Non-Current Cash} \\ \text{and Investments} \end{array}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

**Note:** These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

**FORM 7-1**  
**REPORT ON CCRC MONTHLY SERVICE FEES**

	<u>RESIDENTIAL LIVING</u>	<u>ASSISTED LIVING</u>	<u>SKILLED NURSING</u>
[1] Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	<u>\$2,466-\$7,079</u>	<u>\$2,466-\$7,079</u>	<u>\$2,466-\$7,079</u>
[2] Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	<u>4%</u>	<u>4%</u>	<u>4%</u>

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: March 01, 2010  
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

- ☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.
- ☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.
- ☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.
- ☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.
- ☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.
- ☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

**PROVIDER:** CHANNING HOUSE

**COMMUNITY:** \_\_\_\_\_

Channing House  
Fiscal Year Ended 2/28/2011

Form 7-1: Explanation for Increase in Monthly Service Fees

Channing House monthly care fees are reviewed and adjusted on at least an annual basis to ensure both the continued coverage of our services and our long-term financial health. Our annual adjustment is predicated on the following steps:

1. Review of resident programs and services expected to be offered during the coming fiscal year, including new service initiatives.
2. Revenues are projected on the basis of expected occupancy, as well as anticipated movement within levels of care, and the impact of different care contracts on our revenues. Additional revenue sources not related to resident room revenues are planned when feasible and taken into account.
3. The budget for operating expenses is developed over a several month period with staff, residents, and board review and input. This budget is based on a review of program costs during the previous fiscal year, and the identification of any trends that will affect future costs. Staffing requirements are carefully reviewed, for each department. Adjustments are made for any FTE changes, as well as wage and benefit increases across all departments.
4. Supply, food services, utility, housekeeping, maintenance, insurance and contract prices for vendors are also studied for potential impacts. These increases were about \$31 K of the increase over FY 2010.
5. The combination of all these factors represents the total annual expected costs for the coming year. Total expected operating expenses were budgeted to \$9.4 M.
6. A portion of the entry fees were applied towards the actual operating loss of (\$97 K) for this year. The remaining expenses must be covered by an increase in monthly fees.
7. Channing House's current and expected trends are modeled in meeting certain financial ratios. Board policy is to achieve slight operation surplus in accordance with median operating margin ratios as published by the CARF-CCRC Financial Ratios & Trend Analysis 2011.
8. An increase in rates of 4.0% (existing residents - all units) was applied for FY 2011.



**CHANNING HOUSE**

850 Webster Street • Palo Alto • CA 94301 • PHONE 650-327-0950 • FAX 650-324-7585 • [www.channinghouse.org](http://www.channinghouse.org)

## APARTMENT TYPE AND FEES

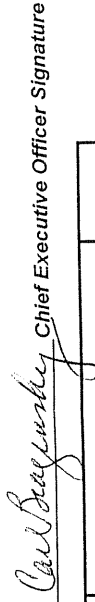
Type of Apartment	Unit Type	Number of Occupants	ENTRANCE FEES effective March 1, 2010		MONTHLY CARE FEES effective March 1, 2010	
			Floors 2 thru 5	Floors 6 thru 10	Single Occupancy	Double Occupancy
Studio	1	Single	\$ 133,000	\$ 136,000	\$ 2,466	N/A
Studio	1 1/4	Single	\$ 152,000	\$ 160,000	\$ 2,812	N/A
Studio	1 1/3	Single	\$ 161,000	\$ 170,000	\$ 2,839	N/A
Alcove	1 1/2	Single	\$ 226,000	\$ 244,000	\$ 3,085	N/A
1 Bedroom - 1 Bath	1 2/3	Single	\$ 287,000	\$ 297,000	\$ 3,476	N/A
1 Bedroom - 1 Bath	1 3/4	Single	\$ 308,000	\$ 326,000	\$ 3,538	
		Double	\$ 368,000	\$ 382,000		\$ 5,409
1 Bedroom - 1 Bath	2	Single	\$ 373,000	\$ 390,000	\$ 3,770	
		Double	\$ 433,000	\$ 451,000		\$ 5,645
1 Bedroom - 1 Bath	2 1/2	Single	\$ 512,000	\$ 529,000	\$ 4,432	
		Double	\$ 525,000	\$ 541,000		\$ 6,304
2 Bedroom - 2 Bath	2 3/4	Single	\$ 541,000	\$ 565,000	\$ 4,811	
		Double	\$ 565,000	\$ 588,000		\$ 6,692
2 Bedroom - 2 Bath	3	Single	\$ 581,000	\$ 613,000	\$ 5,770	
		Double	\$ 605,000	\$ 637,000		\$ 7,079

*Fees are subject to change without notice.*

**Appendix B**  
**Channing House**  
**5 Year Trend - Schedule of Monthly Care Fees**

Type of Apartment	Unit Type	March 1, 2010		March 1, 2009		March 1, 2008		March 1, 2007		March 1, 2006	
		Monthly Care Fee	% Increase	Monthly Care Fee	% Increase	Monthly Care Fee	% Increase	Monthly Care Fee	% Increase	Monthly Care Fee	% Increase
		Fees if Channing House Resident Prior to 3/1/2008		Fees if Channing House Resident Prior to 3/1/2008		Fees if Channing House Resident Prior to 3/1/2008					
		New Residents - Move in After 3/1/2010		New Residents - Move in After 3/1/2009		New Residents - Move in After 3/1/2008					
STUDIO	1	\$ 2,314	4.0%	\$ 2,225	6.0%	\$ 2,099	7.0%	\$ 1,962	5.5%	\$ 1,860	5.5%
STUDIO	1 1/4	\$ 2,641	4.0%	\$ 2,539	6.0%	\$ 2,395	7.0%	\$ 2,238	5.5%	\$ 2,121	5.5%
STUDIO	1 1/3	\$ 2,664	4.0%	\$ 2,562	6.0%	\$ 2,417	7.0%	\$ 2,259	5.5%	\$ 2,141	5.5%
ALCOVE	1 1/2	\$ 2,895	4.0%	\$ 2,784	6.0%	\$ 2,626	7.0%	\$ 2,454	5.5%	\$ 2,326	4.0%
1 BEDROOM	1 2/3	\$ 3,264	4.0%	\$ 3,138	6.0%	\$ 2,960	7.0%	\$ 2,766	5.5%	\$ 2,622	4.0%
1 BEDROOM	1 3/4	\$ 3,321	4.0%	\$ 3,193	6.0%	\$ 3,012	7.0%	\$ 2,815	5.5%	\$ 2,668	4.0%
(double occupancy)	1 3/4	\$ 5,076	4.0%	\$ 4,881	6.0%	\$ 4,605	7.0%	\$ 4,304	5.5%	\$ 4,080	4.0%
1 BEDROOM	2	\$ 3,539	4.0%	\$ 3,403	6.0%	\$ 3,210	7.0%	\$ 3,000	5.5%	\$ 2,844	4.0%
(double occupancy)	2	\$ 5,298	4.0%	\$ 5,094	6.0%	\$ 4,806	7.0%	\$ 4,492	5.5%	\$ 4,258	4.0%
1 BEDROOM	2 1/2	\$ 4,160	4.0%	\$ 4,000	6.0%	\$ 3,774	7.0%	\$ 3,527	5.5%	\$ 3,343	4.0%
(double occupancy)	2 1/2	\$ 5,918	4.0%	\$ 5,690	6.0%	\$ 5,368	7.0%	\$ 5,017	5.5%	\$ 4,755	4.0%
2 BEDROOM	2 2/3	\$ 4,270	4.0%	\$ 4,106	6.0%	\$ 3,874	7.0%	\$ 3,621	5.5%	\$ 3,432	4.0%
(double occupancy)	2 2/3	\$ 6,096	4.0%	\$ 5,862	6.0%	\$ 5,530	7.0%	\$ 5,168	5.5%	\$ 4,899	4.0%
2 BEDROOM	2 3/4	\$ 4,516	4.0%	\$ 4,342	6.0%	\$ 4,096	7.0%	\$ 3,828	5.5%	\$ 3,628	4.0%
(double occupancy)	2 3/4	\$ 6,282	4.0%	\$ 6,040	6.0%	\$ 5,698	7.0%	\$ 5,325	5.5%	\$ 5,047	4.0%
2 BEDROOM	3	\$ 5,415	4.0%	\$ 5,207	6.0%	\$ 4,912	7.0%	\$ 4,591	5.5%	\$ 4,352	4.0%
(double occupancy)	3	\$ 6,645	4.0%	\$ 6,389	6.0%	\$ 6,027	7.0%	\$ 5,633	5.5%	\$ 5,339	4.0%



KEY INDICATORS REPORT  
CHANNING HOUSE

 Carl Bagley, Chief Executive Officer Signature

Please Attach an explanatory memo that summarizes significant trends or variances in key operational indicators

## OPERATIONAL STATISTICS

1 Average Annual Occupancy by Site %

## Margin (Profitability) Indicators

2 Net Operating Margin (%)

3 Net Operating Margin - Adjusted (%)

## Liquidity Indicators

4 Unrestricted Cash and Investments (\$000)

5 Days Cash on Hand (Unrestricted)

## Capital Structure Indicators

6 Deferred Revenue from Entrance Fees (\$000)

7 Net annual E/F Proceeds (\$000)

8 Unrestricted Net Assets (\$000)

9 Annual Capital Asset Expenditure (\$000)

10 Annual Debt Service Coverage Revenue Basis (x)

11 Annual Debt Service Coverage (x)

12 Annual Debt Service/Revenue (%)

13 Average Annual Effective Interest Rate (%)

14 Unrestricted Cash &amp; Investments/Long-Term Debt (%)

15 Average Age of Facility (Years)

	2006	2007	2008	2009	2010	2011	Forecast				Preferred Trend Indicator
							2012	2013	2014	2015	
1 Average Annual Occupancy by Site %	88.3%	87.4%	86.8%	87.7%	84.4%	83.5%	86.3%	90.9%	92.9%	92.9%	N/A
2 Net Operating Margin (%)	30.3%	31.9%	32.8%	33.5%	34.3%	34.7%	35.4%	33.7%	39.0%	38.8%	↑
3 Net Operating Margin - Adjusted (%)	42.2%	48.6%	52.4%	44.6%	50.2%	53.6%	51.5%	50.3%	54.1%	53.9%	↓
4 Unrestricted Cash and Investments (\$000)	\$14,516	\$14,040	\$13,025	\$11,651	\$12,992	\$13,060	\$13,022	\$9,799	\$8,086	\$7,361	↑
5 Days Cash on Hand (Unrestricted)	581	543	497	427	459	485	509	337	267	234	↑
6 Deferred Revenue from Entrance Fees (\$000)	\$16,310	\$16,637	\$18,087	\$17,408	\$17,882	\$19,712	\$20,713	\$21,992	\$23,387	\$24,904	N/A
7 Net annual E/F Proceeds (\$000)	\$1,923	\$3,182	\$4,216	\$2,181	3,630	\$4,728	\$4,200	\$4,543	\$4,724	\$4,913	N/A
8 Unrestricted Net Assets (\$000)	\$8,665	\$10,966	\$12,057	\$11,741	\$14,808	\$16,457	\$16,853	\$16,996	\$17,504	\$18,033	N/A
9 Annual Capital Asset Expenditure (\$000)	\$1,815	\$1,992	\$4,563	\$3,997	\$3,155	\$8,358	\$21,134	\$15,020	\$3,551	\$3,019	N/A
10 Annual Debt Service Coverage Revenue Basis (x)	0.03	0.32	1.04	0.26	0.11	0.68	0.08	0.77	0.95	0.93	↑
11 Annual Debt Service Coverage (x)	1.20	2.25	3.61	1.58	2.32	3.42	1.11	1.86	2.08	2.10	↑
12 Annual Debt Service/Revenue (%)	15.7%	14.1%	12.7%	13.5%	13.0%	12.8%	30.8%	28.0%	27.1%	25.9%	↓
13 Average Annual Effective Interest Rate (%)	5.5%	5.5%	5.5%	5.5%	5.5%	3.4%	5.7%	5.7%	5.8%	5.9%	↓
14 Unrestricted Cash & Investments/Long-Term Debt (%)	69.5%	70.6%	67.3%	62.0%	71.3%	20.7%	21.1%	16.2%	13.6%	12.6%	↑
15 Average Age of Facility (Years)	10	10	10	11	10	10	10	8	9	10	↓

F:\USERS\ACCOUNTING DEPT\External Reporting\CA Dept of Social Services\FY11 Reports\Key Indicators Report\_Form\_8\_FY2011.xls|KIR - 2011 Summary